

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BAC 2674 – TAXATION 1

(All sections / Groups)

13 OCTOBER 2018
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 9 pages excluding the cover page with 5 (five) Questions only.
2. Attempt ALL questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

QUESTION 1 (20 MARKS)

- a) Red Wave Sdn. Bhd. (RWSB), closes its annual account on 30 April. On 15 July 2013, the company acquired a heavy machine at cost of RM200,000. The company incurred cost of preparing site for installation of RM18,000. RWSB also has another heavy machine at cost of RM38,500 which was in use for a business in Singapore and on 21 April 2015, the company brought into use for its business in Malaysia. The market value of heavy machine during the transfer was RM22,700 and the net book value was RM26,950.

In July 2015, RWSB purchased a car (commercial car) under hire purchase for its business purposes. The cost of the car was RM120,000. The company paid deposit of RM26,000 and agreed to pay a monthly instalment of RM1,500 (excluding interest of hire purchase) for 48 months, commencing on 1 August 2015. The car was sold for RM55,000 in January 2018.

Required:

- (i) **Compute the capital allowances, balancing charge or allowance (if any) for all assets acquired by RWSB for the relevant years of assessment up to year of assessment 2018.** (8 marks)

- (ii) **How do balancing charges and balancing allowance arise? Discuss in detail.** (4 marks)

- b) STD Sdn. Bhd. is a manufacturing company and prepares its financial accounts to 31 December every year. In 2013, company purchased a land in Kuantan for RM220,000 (including legal fees of RM6,600). The company constructed a factory on the land for RM420,000 which it brought into use in December 2014. The total floor area of the factory was 20,000 square feet, comprised of:

- i. Administrative office of 8,000 square feet.
- ii. Manufacturing area 10,000 square feet.
- iii. Staff welfare facilities 2,000 square feet.

On 15 December 2017, the company sold its factory to MMT Sdn. Bhd. at the price of RM800,000 (inclusive the price of the land of RM350,000).

Required:

Compute the industrial building allowance, balancing charge or allowance (if any) for STD Sdn. Bhd. for the relevant years of assessment up to year of assessment 2017.

(8 marks)

[Total = 20 marks]

Continued ...

QUESTION 2 (20 MARKS)

Wong, Auni, and Divya are partners and close partnership accounts to 31 December annually. The business accounts show a net loss before taxation of RM95,000 for the year ended 31 December 2017. Business expenses include depreciation, donations and bad debts (general provision of bad debts) amounting to RM18,000, RM3,500 and RM8,000 respectively. The partnership is eligible to claim capital allowance of RM10,000 and balancing charge of RM6,000.

The partnership agreement provides for an annual salary of RM36,000 to Wong and RM42,000 to Auni and Divya respectively. An annual interest on capital for each partner is 5%. Wong, Auni, and Divya contributed capital amounted to RM80,000, RM100,000 and RM110,000 respectively with profit sharing ratio 2:1:2.

On 1 July 2017, Ikram joined the partnership and contributed RM50,000 as a capital. He received salary of RM2,000 per month. New profit sharing ratio was 1:1:1:1. Other terms in the partnership agreement would remain the same.

Required:

- (i) **Compute the partnership's provisional adjusted income and divisible income for the year of assessment 2017.** (6 marks)
- (ii) **Compute the partner's statutory income for the year of assessment 2017.** (10 marks)
- (iii) **State the factors that determine the existence of a partnership.** (4 marks)

[Total: 20 marks]

Continued ...

QUESTION 3 (20 MARKS)

- a) Janet, a Hong Kong citizen, commenced employment as a consultant with APP Transit Sdn. Bhd.'s projects. Her record of stays are as follows:

Periods of stays	Remarks
1 February 2013 - 12 July 2013	In Malaysia
13 July 2013 - 31 August 2013	Training in Singapore
1 September 2013 - 22 December 2013	In Malaysia
23 December 2013 - 31 December 2013	Holiday in Australia
1 January 2014 - 28 February 2014	Business Trip in New Zealand
1 March 2014 - 14 August 2014	In Malaysia
15 August 2014 - 14 September 2014	Holiday in Thailand
15 September 2014 - 30 November 2014	In Malaysia
1 December 2014 - 19 December 2014	Medical treatment in Singapore
20 December 2014 - 5 January 2015	In Malaysia
6 January 2015 - 31 May 2015	Business trip in Indonesia
1 June 2015 - 30 June 2015	In Malaysia
1 July 2015 - 30 November 2015	Seminar in Brunei
1 December 2015 - 15 December 2015	In Malaysia

Janet left Malaysia on 16 December 2015 to 10 January 2016 to visit her family and celebrate Christmas in Hong Kong (social visit). Janet returned to Malaysia again on 11 January 2016 with her husband, Jackson. Janet continued her employment with APP Transit Sdn. Bhd. for a short assignment lasting until 31 May 2017. Meanwhile, Jackson was appointed as a technical advisor with Asia Technology Sdn. Bhd. from 1 February 2016 until 30 June 2017. From 1 February 2017 until 7 February 2017, Jackson was in Thailand to attend training in relation to work matters. Janet did not accompany him. Jackson and Janet left Malaysia permanently after Jackson completed his term of employment on 30 June 2017.

Required:

State, with reasons, tax residence status for Janet ONLY for all relevant years of assessment. **(15 marks)**

- b) Robert, a British citizen, is employed by Malaysian company as a management consultant for 10 years contract.

Required:

Advise Robert on what circumstances can he be regarded as a resident taxpayer in Malaysia for income tax purposes. **(5 marks)**

[Total: 20 marks]

Continued ...

QUESTION 4 (20 MARKS)

Mike and Megan are married and tax residents in Malaysia. The couple have a 12 year-old daughter, May. Details of Mike's employment income for the year of assessment 2017 were as follows:

- i) Salary for the year was RM80,000.
- ii) Social security contributions (SOCSO) amounted to RM592.
- iii) The minimum employment provident fund (EPF) contributions of 11% were deducted from his salary.
- iv) A fully furnished apartment with annual value of RM35,000, including the value for the furniture of RM350 per month was provided by his employer.
- v) A new car costing RM180,000 was provided to him by his employer in starting from May 2015 . Fuel was provided by his employer.
- vi) A holiday package to Thailand for which his employer paid for the air tickets, meals and accommodation of RM1,000, RM600 and RM2,000 respectively.

Payments made by Mike in 2017 were as follows:

	RM
Purchase of tablet	1,800
Payment for gym membership subscription fee	600
Life insurance premium	2,800
Tuition fees for pursuing Master degree at Multimedia University, Malaysia	8,000

Megan operates a hair saloon as a sole proprietor business. Details of her business income were as follows:

	RM
Adjusted income	68,000
Capital allowances for the year	8,000

Megan also received interest income of RM4,700 from a fixed deposit placed in an overseas bank.

Payments made by Megan in 2017 were as follows:

	RM
Purchase of laptop	2,000
Purchase of magazines	250
Payment to medical insurance premium	2,150
Maintenance of May, including schooling	5,000
Purchase of basic supporting equipment for her father	4,000
Donation to an approved charitable institution	200

Mike and Megan have agreed that Megan would claim the child relief for May.

Continued ...

Required:

Assuming that Mike and Megan elect for separate assessment, compute the income tax payable for the year of assessment 2017 by:

- (a) Mike; and (10 marks)
 (b) Megan. (10 marks)

Note: You should indicate by the use of the word 'nil' for any item referred to in the question for which no adjusting entry needs to be made or reliefs or rebates given in the tax computation.

[Total: 20 marks]

QUESTION 5 (20 MARKS)

Lily owns a Peranakan bakery shop located at Jalan Kota Laksamana, Melaka. The bakery sells a variety of traditional Nyonya cakes and it is a sole proprietor business. For the year ended 31 December 2017, the income statement for the business is as follows:

	Note	RM	RM
Sales revenue			450,000
Less: Cost of sales	1		(277,000)
Gross profit			173,000
Less:			
Insurance expense	2	3,000	
Donation	3	4,000	
Repair and maintenance expenses	4	12,400	
Depreciation	5	16,000	
Advertising expense	6	5,000	
Entertainment expenses	7	6,000	
Bad debts written-off	8	10,500	
Professional fees	9	23,500	80,400
Net profit before taxation			92,600

Notes:

- 1 Cost of sales
 Included in the cost of sales are:
- | | |
|---|--------|
| | RM |
| i) Salary to Lily | 12,000 |
| ii) Salary paid to Lily's sister, Jenny, who is employed as a cashier | 24,000 |
| iii) Leave passage for Lily to Australia | 5,000 |
| iv) Salary of registered blind employee | 9,600 |
- 2 Insurance expense incurred for the fire and flood insurance of the bakery.
- 3 Donation made to Tabung Harapan, a fund approved by the Malaysian government.

Continued ...

4	Repair and maintenance expenses include:	RM
	i) Repair cost of baking machines	800
	ii) Service cost incurred on bakery's air-conditioning system	900
	iii) Cleaning and repainting cost of the bakery	3,000
	iv) Repair cost of bakery's glass door	5,600
5	Depreciation expense incurred on the bakery's property, plant and equipment during the year.	
6	Advertisement expense incurred to promote the bakery's products.	
7	Entertainment expenses consist of:	RM
	i) Staff lunches and refreshment	3,500
	ii) Free bread and pastries vouchers to first time customers	2,500
8	All bad debts written-off are trade debts except for a sum of RM4,500 written-off which is in respect of a loan made to an ex-employee.	
9	Professional fees consist of:	RM
	i) Accounting fees	1,700
	ii) Income tax appeal	800
	iii) Trade debts collection expenses	1,000
	iv) Utility expense of the bakery	20,000

Other information

Lily is eligible to claim a capital allowance for her bakery amounting to RM24,000 for the year of assessment 2017.

Besides her bakery, Lily also receives statutory rental income amounting to RM15,000 from a property owned by her in 2017.

Lily's bakery business has a brought forward business loss from the year of assessment 2016 amounting to RM5,300.

In 2017, Lily sold some shares and made a gain of RM6,000.

Required:

Compute total income for Lily for the year of assessment 2017.

Note: Your computation for Lily's sole proprietor business should start with the 'net profit before taxation' figure and follow the descriptions used in the notes to the income statement. Indicate 'nil' in the appropriate column for any item that does not require adjustment. You do not need to explain the adjustments made.

[Total: 20 marks]

End of question.

APPENDIX 1**TAX RATES AND ALLOWANCES**

The following tax rates, allowances and values are to be used in answering the questions.

i) Income tax rates for resident individuals for the year assessment 2017.

Chargeable Income	Calculations (RM)	Rate %	Tax(RM)
0 - 5,000	On the First 2,500	0	0
5,001 - 20,000	On the First 5,000 Next 15,000	1	0 150
20,001 - 35,000	On the First 20,000 Next 15,000	5	150 750
35,001 - 50,000	On the First 35,000 Next 15,000	10	900 1,500
50,001 - 70,000	On the First 50,000 Next 20,000	16	2,400 3,200
70,001 - 100,000	On the First 70,000 Next 30,000	21	5,600 6,300
100,001 - 250,000	On the First 100,000 Next 150,000	24	11,900 36,000
250,001 - 400,000	On the First 250,000 Next 150,000	24.5	47,900 36,750
400,001 - 600,000	On the First 400,000 Next 200,000	25	84,650 50,000
600,001 - 1,000,000	On the First 600,000 Next 400,000	26	134,650 104,000
Exceeding 1,000,000	On the First 1,000,000 Next ringgit	28	238,650

ii) Reliefs for the year of assessment 2017

Individual Relief Types	RM
Self	9,000
Disabled self, additional	6,000
Medical expenses expended on parents	5,000
Medical expenses for serious disease	6,000
Parental care	1,500
Basic supporting equipment	6,000
Study course fees for skills or qualifications	7,000
Lifestyle allowance	2,500

Spouse relief	4,000
Disabled spouse, additional	3,500
Child – basic rate (each)	2,000
Child – higher rate (each)	8,000
Childcare (below six years old)	1,000
Breastfeeding equipment	1,000
Life insurance premiums and contributions to approved funds	6,000
Private retirement scheme contributions, deferred annuity premiums	3,000
Medical and/or education insurance premiums	3,000
Deposit for a child into the National Education Savings Scheme	6,000
Contribution to Social Security Organisation (SOCSO)	250

iii) Rebates

	RM
Chargeable income not exceeding RM35,000	
Individual	400
Individual who has been given a deduction in respect of a spouse or former wife	400

iv) Value of benefits in kind

a) Car and fuel scale

Cost of car (when new)	Prescribed annual value of private usage of car	Fuel per annum
RM	RM	RM
Up to 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001 – 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equal to half of the prescribed annual value (above) is taken if the car is provided is more than five (5) years old, but the value of the fuel provided remains unchanged.

Where a driver is provided by the employer, the value of the benefit per month is fixed at RM600.

b) Household Furnishings, Apparatus & Appliances

	Types Of BIK	Annual Value Of BIK
(a)	Semi-furnished with furniture in the lounge, dining room or bedrooms.	RM 840 (RM 70 per month)
(b)	Semi-furnished with furniture as in (a) above and one or more of the following: air-conditioners, curtains and carpets	RM 1,680 (RM 140 per month)
(c)	Fully-furnished with benefits as in (a) and (b) above with one or more of the following: kitchen equipment, crockery, utensils and appliances.	RM 3,360 (RM 280 per month)
(d)	Service charges and other bills such as for water, electricity and telephone.	Service charges and bills paid by the employer.

Gardener	RM 3,600 per annum
Domestic servant	RM 4,800 per annum
Driver	RM 7,200 per annum

v) Capital allowances

	Initial allowance Rate (%)	Annual allowance Rate (%)
Motor vehicles and heavy machinery	20	20
General plant and machinery	20	14
Office equipment, furniture and fittings	20	10
Industrial building	10	3
Computer, information technology equipment & computer software	20	40